

IRS News Release

Media Relations Office

Washington, D.C.

Media Contact: 202.622.4000

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IRS and Gaming Industry Partner on Voluntary Tip Compliance Agreements

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WASHINGTON — The Internal Revenue Service is expanding a new tip compliance agreement nationwide to the gaming industry. The agency encourages gaming industry employers to participate in the voluntary agreement and urges employees whose income includes tips to learn the benefits of participation.

For employers, the agreement substantially reduces the recordkeeping and reporting burden. For employees, the improved income reporting procedures could potentially make them eligible for higher Social Security or other pension, Medicare, unemployment and workman's compensation benefits. This could also help qualify them when applying for loans or other financial arrangements.

The voluntary compliance process allows a gaming industry employer, employees and the IRS to work together to objectively determine tip rates for tipped employees in specified occupational categories.

There are several steps to the process:

- The employer and the IRS sign a Gaming Industry Tip Compliance Agreement, which incorporates tip rates specific to that employer's establishment and prescribes a minimum level of participation by the employer's employees.
- The employer recruits his employees to voluntarily participate.
- Participating employees must then report their tip income to their employer at or above the established tip rates, unless their tip logs can substantiate a lesser amount.
- The employer withholds income tax from the employees and reports income on the employees' Form W-2 based on the rates or the substantiated lesser amount.

As long as tips are reported at or above the established tip rate, the compliance agreement generally prevents the IRS from auditing the employee's tip income. In addition, as long as the employer meets certain commitments, the IRS will not assert a liability against the employer with respect to the tip income of participating employees while the agreement is in effect. The agreement may be renewed every three years.

Representatives of the gaming industry, including employees, provided significant input into the development of the agreement.

All employers operating a gaming establishment may participate in the Gaming Tip Compliance Agreement. Either the IRS or an employer may initiate participation.

For further details on the compliance agreement, see Revenue Procedure 2003-35, "Gaming Industry Tip Compliance Agreement Program," at www.irs.gov/pub/irs-drop/rp-03-35.pdf.